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Investment Strategy Update **First Quarter 2017**

Interest rates have begun to rise and the dollar has begun to strengthen. In this environment, we are maintaining a modestly aggressive asset allocation relative to each client's personal benchmark. However, we are monitoring the resulting market volatility, which could force us to become more conservative.

Robin Smith, CFA, CFS, EA

As we have stated in the past, our modestly aggressive asset allocation, when compared to each client's personal benchmark, is supported by the net benefits associated with historically low oil prices, favorable world monetary policies and attractive equity valuations worldwide. However, rising interest rates in the US and a strong US dollar are quickly replacing social unrest in the world, financial instability in key areas outside of the United States and the decision in the UK to leave the European Union, as the most meaningful headwinds. As a result, we are maintaining a modestly aggressive investment strategy today, while closely monitoring market volatility.

Our current expectations for the first quarter of 2017 and beyond are that the US economy will continue to improve gradually. However, while still compelling, the net benefits associated with low oil prices, favorable monetary policies and reasonable equity valuations are not as compelling today as they have been. The OPEC oil cartel has come to an agreement to pull back on production and oil prices have responded by moving higher. Monetary policy has become less accommodative with the Fed's second increase in short term rates in a year and interest rates across the yield curve have responded by moving higher. Equity markets in the US have responded to an improving US economy by reaching new highs this year on all major indexes.

Our greatest concern is that interest rates and the US Dollar might rise too fast and begin to represent a more formidable headwind than currently anticipated, resulting in greater volatility.

Our modestly aggressive asset allocation, relative to each client's personal benchmark, reflects expected gradual improvement in world economies and managed increases in interest rates and the US dollar. Fixed income investments favor short and intermediate term corporate and treasury bonds.

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Robin Smith, CFA, EA, CFS
President & CEO
rsmith@capitalcrest.com
CapitalCrest Advisor Network, LLC
3621 Vinings Slope SE, Suite 3309
Atlanta, GA 30339
www.capitalcrest.com
Office: 770.433.8444
FAX: 770.433.8455
Cell Phone: 678.733.1222